

A. C. LAWRENCE LEATHER COMPANY

TO THE SHAREHOLDERS:

Accompanying this letter is the Balance Sheet of the A. C. Lawrence Leather Company, showing its financial position on October 26, 1946, together with Statements of Income and Surplus for the fiscal year ended that date. After all costs and expenses, including interest and reserves for federal, state, and other taxes, and certain other reserves, net earnings are \$1,435,144. Although our year-end inventory was slightly higher in dollars than at the beginning of the year, most of our major departments had a smaller unit inventory than a year ago. To provide against price decline, and for the replacement of basic inventories carried on Last-in First-out basis, a reserve of \$475,000 was set up.

Nineteen hundred forty-six is the fifth year during which the industry has operated at ceiling prices on raw materials and finished leathers. With some slight exceptions, during the five-year period ceiling prices have remained unchanged. Since the close of our fiscal year, all price controls on hides, skins, leathers, and shoes have been removed.

Since October 26, 1946, prices of raw hides and skins have increased practically one hundred per cent, bringing them fairly close to world prices which have been in effect during the summer and fall. Leather prices have advanced in line with the increase in raw material costs and leather is in good demand at current increased prices. Except for a period during and shortly after the first World War, raw hide and skin prices have never been so high as they are at the present time and how long these or higher price levels will be maintained we have no way of knowing. We do, however, know that articles made out of leather, such as shoes, must sell at substantially higher prices if present markets on hides and leather are maintained.

All during 1946 we continued to operate under Government allocation of raw material. As a result of the control of meat prices, products were diverted from normal channels and domestic kill was reduced radically from the spring on, resulting in continually curtailed Government allocations. Our raw stock inventories were so low that the small quantities allocated to us made it no longer possible for us to continue to operate at previous levels and our curtailment in production consequently became very serious, particularly during the fall months. When meat was decontrolled, kill increased and products again began to flow in normal channels, resulting in the removal of Government allocations so that now we find ourselves able to buy freely, although at high prices, and our former rate of operations is gradually being resumed.

Because of the uncertainties in the national situation, 1946 has been a most difficult year in which to operate but your company has the advantage of an experienced organization, which has been of tremendous help under extremely trying conditions.

The condition of our plants has never been as good as it is at the present time and our organization is continually working to improve methods and also operating conditions of our employees. Our superintendents and foremen are able and experienced in producing quality merchandise at competitive costs and we are appreciative of the cooperation and efforts of our employees throughout the company.

With the resumption in the free flow of leather supplies, we have reason to believe that our customers and the consuming public will welcome a resumption of increased quantities of leather articles and on this basis we anticipate that 1947 will show a continued demand for the products of our tanneries.

Respectfully submitted,
HAROLD N. GOODSPEED,
President

Peabody, Mass.
December 12, 1946.

A. C. LAWRENCE L

Balance Sheet -

ASSETS

CURRENT ASSETS:

Cash	\$ 949,837
U. S. Government securities (market value \$5,750,818)	5,750,391
Accounts and notes receivable (less reserves \$110,838)	1,993,557
Inventories (valued at the lower of cost or market, except hides and skins aggregating \$3,139,676 which are valued on basis of the "last-in, first-out" method adopted as at January 1, 1941)	
Raw materials, work in process and finished goods	\$ 4,566,719
Tanning ingredients and supplies	<u>1,171,915</u>
	5,738,634
Total current assets	<u>\$14,432,419</u>

FIXED ASSETS:

Property, plant and equipment, at appraised value, January 1, 1914, plus subsequent additions at cost, less retirements	\$10,252,126
Less: Reserve for depreciation	<u>6,232,256</u>
	4,019,870

PREPAID EXPENSES AND DEFERRED CHARGES	62,633
	<u><u>\$18,514,922</u></u>

Certificate of Independent Public Accountants

To the Chairman and Board of Directors of A. C. Lawrence Leather Company, Peabody, Massachusetts:

We have examined the balance sheet of A. C. Lawrence Leather Company at October 26, 1946 and the statements of income and earned surplus for the period from October 27, 1945 to October 26, 1946, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and statements of income and earned surplus present fairly the position of A. C. Lawrence Leather Company at October 26, 1946, and the results of its operations for the period from October 27, 1945 to October 26, 1946, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Chicago, Illinois, December 10, 1946.

LEATHER COMPANY

-October 26, 1946

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:

Accounts payable, including pay rolls, etc.....	\$ 808,136
Accrued general and social security taxes	187,781
Provision for Federal income and excess profits taxes	<u>1,849,592</u>
Total current liabilities	<u>\$2,845,509</u>

RESERVES:*

Inventory reserve.....	\$ 475,000	
Reserve for contingencies	315,947	
Operating reserves.....	<u>203,742</u>	
		994,689

CAPITAL STOCK AND SURPLUS:

Capital stock, par value \$10 per share—		
Authorized—1,250,000 shares	<u>\$12,500,000</u>	
Issued—1,000,000 shares	\$10,000,000	
Earned surplus, since October 28, 1938 (see statement)	<u>4,674,724</u>	
		<u>14,674,724</u>
		<u>\$18,514,922</u>

*NOTE: During the current fiscal year operating reserves aggregating \$219,468, no longer specifically required, were transferred to the reserve for contingencies. The inventory reserve of \$475,000 was provided in the current fiscal year for possible future price decline and in part for losses on replacement of basic "last-in, first-out" inventories between October 26, 1946, and December 31, 1946, the close of the Federal income tax year.

Statement of Income

For the Period from October 27, 1945 to October 26, 1946

Net sales.....	\$34,876,807	
Dividends, interest received, etc.....	54,146	
		\$34,930,953
Less:		
Cost of sales, exclusive of items below.....	\$29,167,615	
Selling, general and administrative expenses.....	1,526,330	
Provision for depreciation.....	394,989	
Contribution to Pension Trust.....	546,306	
Interest paid.....	1,269	
Provision for inventory reserve (see footnote to balance sheet).....	475,000	
Federal normal tax and surtax.....	1,174,500	
Excess profits tax.....	196,600	
Other income taxes.....	13,200	
		33,495,809
Net income for the year.....		<u>\$ 1,435,144</u>

Earned Surplus

(Since October 28, 1938)

Surplus, October 27, 1945.....	\$ 3,989,580
Dividend paid—December 14, 1945—\$.75 per share.....	750,000
	\$ 3,239,580
Net income for the year.....	1,435,144
Surplus, October 26, 1946.....	<u>\$ 4,674,724</u>

Directors

GEO. H. SWIFT	ALBERT F. HUNT	H. N. GOODSPEED	WM. B. TRAYNOR
R. L. WINANS	A. J. GREEN	S. N. NECTOW	

Officers

GEO. H. SWIFT	Chairman of the Board of Directors	S. PALMER	-	-	-	-	-	Vice President
H. N. GOODSPEED	-	-	-	-	-	-	-	Vice President
A. J. GREEN	-	-	-	-	-	-	-	Treasurer
S. N. NECTOW	-	-	-	-	-	-	-	Secretary and Asst. Treasurer
R. L. WINANS	-	-	-	-	-	-	-	Asst. Treasurer
A. V. RICE	-	-	-	-	-	-	-	Asst. Secretary

TRANSFER AGENT
A. H. Fritschel
Exchange and Packers Avenues
Chicago 9, Illinois

GENERAL OFFICE
Peabody, Massachusetts

REGISTRAR
The First National Bank of Chicago
Chicago 3, Illinois